

PUBLIC DISCLOSURE

April 28, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

MARBLEHEAD BANK

Certificate #90234

**21 ATLANTIC AVENUE
MARBLEHEAD, MA 01945**

**Division of Banks
1000 Washington Street, 10th Floor
Boston, MA 02118**

<p>NOTE: This document is an evaluation of the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Massachusetts Division of Banks (“Division”) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **Marblehead Bank (or the Bank)**, prepared by the Division, the institution's supervisory agency as of **April 28, 2014**. The Division evaluates performance in the assessment area(s), as they are defined by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in the Division's regulation 209 CMR 46.00.

INSTITUTION'S CRA RATING: This institution is rated “Satisfactory.”

An institution in this group has an adequate record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The evaluation was conducted using Interagency Small Institution examination procedures, which include the following five performance factors: Loan-to-Deposit (LTD) Ratio; Assessment Area Concentration; Borrower Profile; Geographic Distribution; and Response to CRA-Related Complaints. The rating is supported by the following factors:

- The Bank's average LTD ratio is reasonable (considering seasonal variations and taking into account lending-related activities) given the institution's size, financial condition, and assessment area credit needs.
- The Bank originated a majority of loans within its assessment area.
- The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate-income).
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The Bank did not receive any CRA-related complaints during the period reviewed.

SCOPE OF THE EXAMINATION

This evaluation assesses Marblehead Bank's CRA performance utilizing the Interagency Small Institution examination procedures, as established by the Federal Financial Institutions Examination Council (FFIEC). Small Institution CRA examination procedures are used for institutions with assets of less than \$300 million as of December 31 of either of the prior two calendar years, adjusted annually. The evaluation considered home mortgage lending activities from January 1, 2012 through December 31, 2013.

Data reviewed included all originated home mortgage loans reported on the Bank's Home Mortgage Disclosure Act (HMDA) loan application registers (LARs) for 2012 and 2013. The LARs contain data about home purchase and home improvement loans, including refinances of 1-4 family and multi-family properties. The Bank reported 209 loans totaling approximately \$53.4 million in 2012 and 147 loans totaling \$42.2 million in 2013. The Bank's home mortgage lending performance was compared against 2012 aggregate lending data. Aggregate data includes the lending activity of all institutions subject to HMDA reporting within the Bank's assessment area. The evaluation focused on lending performance in 2012, the most recent year for which aggregate data was .

While the evaluation discusses the total dollar amounts of loans, conclusions are primarily based on the Bank's lending performance by the number of loans originated or purchased. The number of loans correlates more closely with the number of individuals that obtained loans. Extremely large or small dollar loans could skew conclusions.

Demographic information from the 2010 United States (U.S.) Census was referenced in this evaluation. Financial data was generally obtained from the December 31, 2013 Call Report.

PERFORMANCE CONTEXT

Description of Institution

Marblehead Bank is a state-chartered financial institution incorporated under the laws of the Commonwealth of Massachusetts in 1871. The Bank's main office is located at 21 Atlantic Avenue in Marblehead, Massachusetts. Since the previous examination, the Bank has opened a branch in Beverly, MA, which is located in a moderate-income census tract. The Bank also operates a branch at One Humphrey Street in Marblehead.

As of the December 31, 2013, the Bank's assets totaled \$177.0 million, of which \$146.6 million, or 82.8 percent, were loans. The largest asset on the Bank's balance sheet is 1-4 family real estate loans secured by first liens, representing 83.5 percent of the Bank's loan portfolio. Table 1 illustrates the current distribution of the Bank's loan portfolio.

Table 1 – Loan Portfolio Distribution as of June 30, 2012		
Loan Type	Dollar Amount \$('000s)	Percent of Total Loans (%)
Loans Secured by Real Estate		
Construction, Land Development, and Other Land Loans	1,350	0.9
Revolving, Open-end Loans Sec. by 1-4 Family Res. Props & Extended Under LOC	16,978	11.6
Closed-end Loans Secured by 1-4 Family Residential Props: Secured by 1st Liens	104,722	71.4
Closed-end Loans Secured by 1-4 Family Residential Props: Secured by Junior Liens	784	0.5
Secured by Multi-Family (5 or more) Residential Properties	113	0.1
Secured by Nonfarm Nonresidential Properties	20,570	14.0
Commercial and Industrial	1,349	0.9
Consumer Loans	775	0.5
TOTAL LOANS	146,641	100.0

Source: December 31, 2013 Call Report

The most recent CRA evaluation conducted by the Division on February 17, 2009 resulted in an overall rating of "Outstanding." There appear to be no financial or legal impediments that would limit the Bank's ability to help meet the credit needs of its assessment area.

Description of Assessment Area

The CRA requires the designation of one or more assessment areas within which a financial institution's record of helping to meet the credit needs of its community will be evaluated. The Bank has one designated assessment area that conforms to CRA requirements as it consists of whole geographies, does not arbitrarily exclude low- or moderate-income areas, does not extend beyond state boundaries, and does not reflect illegal discrimination.

Geographies

The Bank's assessment area consists of the following cities and towns: Beverly, Marblehead, Salem, and Swampscott. The towns of Beverly and Salem were added to the assessment area since the previous examination. All of the communities are located in Essex County, which is part of the Peabody MA-MD (#33764).

The *Geographic Distribution* section of the evaluation assesses the distribution of loans by census tract income level, especially in those designated low- and moderate-income. Each census tract is assigned an income level based on the median family income (MFI) of the tract as compared to the MFI established for the MSA in which the tract is located. The four income levels are defined as follows:

Low-Income: Less than 50 percent of MFI

Moderate-Income: At least 50 percent but less than 80 percent of MFI

Middle-Income: At Least 80 percent but less than 120 percent of MFI

Upper-Income: 120 percent or greater of MFI

Based on 2010 U.S. Census data, there is 1 low-income tract, 4 moderate-income tracts, 8 middle-income tracts, and 10 upper-income tracts. Table 2 contains pertinent demographic information concerning the assessment area.

Table 2 – Assessment Area Demographic Information					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	23	4.3	17.4	34.8	43.5
Population by Geography	114,437	3.4	16.8	34.5	45.3
Owner-Occupied Housing by Geography	29,574	1.4	12.2	33.4	53.0
Distribution of Families by Income Level	28,381	19.1	18.0	22.4	40.5
Median Family Income (MFI)	\$91,935	Median Housing Value Unemployment Rate			\$451,675 6.2%
MD #37764 MFI, 2012	\$87,300				
MD #37764 MFI, 2013	\$83,500				
Families Below Poverty Level	6.0%				

Source: 2010 U.S. Census, 2012 and 2013 FFIEC Estimated Median Family Incomes

Median Family Income Levels

The analysis under the *Borrower Characteristics* section of the evaluation is primarily based on the distribution of home mortgage loans to borrowers of different incomes, using the same four income levels defined in the previous section. The analysis utilizes income data from the 2010 U.S. Census that has been annually adjusted by the Federal Financial Institutions Examination Council (FFIEC) for inflation and other economic events. The estimated 2012 and 2013 MFI figures for the Peabody, MA MSA-MD are listed in Table 2.

The analysis of the Bank's home mortgage lending also includes comparisons to the distribution of assessment area families by income level. Table 2 reveals there is a much higher representation of upper-income families compared to other income categories. Low- and moderate-income families have the smallest representation at 19.1 and 18.0 percent, respectively.

Housing Characteristics

Among other statistics, Table 2 also illustrates the distribution of owner-occupied housing units by census tract income level. The table shows that owner-occupied housing units in the assessment area are heavily concentrated in middle-income and upper-income census tracts. Only 1.4 percent of total owner-occupied units are in the low-income tracts. This limits opportunities to make home mortgage loans in low-income census tracts.

Unemployment Data

The unemployment rate in the assessment area was 6.2 percent based on the 2010 U.S. Census Data. State and county unemployment rates were obtained from the Bureau of Labor Statistics. In 2013, the Massachusetts unemployment rate was 7.1 percent. The Essex County unemployment rate was 7.5 percent in 2013. Municipal unemployment rates were obtained from the Massachusetts Executive Office of Labor and Workforce Development. In March 2014 unemployment rates of towns within the assessment area ranged from 4.4 percent in Marblehead to 6.2 percent in Salem.

Competition

The Bank faces strong competition from other financial institutions that originated loans within the assessment area. Large national financial institutions dominate the area's market share. Other smaller institutions are located within the Bank's assessment area and increase the local competition by providing similar products and services. The 2012 Peer Mortgage Data shows that 279 lenders originated 8,577 residential mortgage loans in the Bank's assessment area.

Community Contact

As part of the evaluation process, third parties active in community affairs are contacted to assist in assessing the housing and general banking needs of the community. Relevant information obtained from such sources helps to determine whether local financial institutions are responsive to the credit and service needs of their communities and what further opportunities, if any, are available. For purposes of this evaluation, information provided by one such contact was referenced in preparing this evaluation.

A contact was conducted with a local community development organization. The organization focuses on affordable housing through real estate development, as well as community engagement. The contact noted that there is a large demand for affordable housing in the North Shore area. Investment emphasis in the area has been on market rate and luxury housing, with little investment in low-income and affordable housing. The contact noted that a number of local banks are responsive to the needs of the area.

CONCLUSIONS REGARDING PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

This performance criterion determines what percentage of the Bank's deposit base is reinvested in the form of loans and its reasonableness. The Bank's LTD ratio is reasonable, given the institution's size, financial condition, and assessment area credit needs.

Marblehead Bank's average net LTD ratio over the 20 quarters since the previous CRA evaluation was 94.9 percent. The Bank's quarterly LTD ratio fluctuated over the period reaching a high of 101.7 percent as of March 31, 2009 and hitting a low of 88.0 percent as of March 31, 2013. The quarterly LTD ratio was generally stable during the review period.

For comparison purposes, the Bank's average net LTD ratio was compared against the average net LTD ratios of three similarly situated institutions. The Bank's performance was comparable to these institutions. Refer to Table 3 below for the similarly situated institutions' average net LTD comparison.

Table 3 – Loan-to-Deposit Comparison		
Bank Name	Total Assets \$('000s) as of 12/31/13	Average Net LTD Ratio
Beverly Bank	323,611	97.8
North Shore Bank	469,643	96.2
Marblehead Bank	176,959	94.9
Equitable Co-operative Bank	103,205	82.1

Source: March 31, 2009 through December 31, 2013 Call Reports

Assessment Area Concentration

This performance criterion evaluates whether the Bank is meeting the credit needs within its assessment area by evaluating the amount of lending conducted within the assessment area. Table 4 portrays the Bank's record of originating loans inside and outside the assessment area during the review period.

Table 4 – Distribution of Home Mortgage Loans Inside and Outside of Assessment Area										
Loan Category or Type	Number of Loans					Dollar Volume				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$('000s)	%	\$('000s)	%	\$('000s)
2012										
Home Purchase	24	75.0	8	25.0	32	7,459	64.7	4,074	35.3	11,533
Refinance	128	81.0	30	19.0	158	30,654	84.5	5,635	15.5	36,289
Home Improvement	16	84.2	3	15.8	19	5,053	91.4	477	8.6	5,530
Total	168	80.4	41	19.6	209	43,166	80.9	10,186	19.1	53,352
2013										
Home Purchase	26	86.7	4	13.3	30	9,563	75.9	3,034	24.1	12,597
Refinance	82	86.3	13	13.7	95	22,074	87.4	3,170	12.6	25,244
Home Improvement	14	63.6	8	36.4	22	3,418	78.4	941	21.6	4,359
Total	122	83.0	25	17.0	147	35,055	83.1	7,145	16.9	42,200
Grand Total	290	81.5	66	18.5	356	78,221	81.9	17,331	18.1	95,552

Source: 2012 and 2013 HMDA LARs

Marblehead Bank originated a majority of home mortgage loans inside its assessment area in 2012 and 2013. The percentage of loans in the assessment area was relatively consistent for both years. Bank management stated that the increasing interest rates during the evaluation period contributed to the decline in the Bank's refinance loans in 2013. Home purchase and home improvement lending was consistent from 2012 to 2013.

Borrower Profile

Overall, the distribution of borrowers, given the demographics of the assessment area, reflects reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different revenue sizes. This conclusion was primarily based on Marblehead Bank's reasonable distribution of home mortgage loans to LMI individuals. Borrower incomes for loans reported in 2012 and 2013 were compared to the HUD-adjusted Median Family Income (MFI) of the appropriate MSA or MD. Table 5 shows the Bank's loans by borrower income level in 2012 and 2013. Table 5 also includes the distribution of families by income level and aggregate market data for 2012.

Table 5 – Distribution of Home Mortgage Loans by Borrower Income Level						
Income Level	% of Total Families	2012 Aggregate Lending Data (% of #)	2012 Bank		2013 Bank	
			#	%	#	%
Low	19.2	3.6	8	4.8	3	2.5
Moderate	18.0	13.9	33	19.6	14	11.5
Middle	22.4	23.5	36	21.4	26	21.3
Upper	40.5	47.7	85	50.6	70	57.4
Income NA	0.0	11.3	6	3.6	9	7.4
Total	100.0	100.0	168	100.0	122	100.0

Source: 2010 U.S. Census Data; 2012 and 2013 HMDA Data

As shown in Table 5, the Bank made 4.8 percent of all home mortgage loans to low-income borrowers in 2012. This percentage exceeds the aggregate market's 3.6 percent. In 2013, the Bank's percentage of loans to low-income borrowers decreased to 2.5 percent.

In 2012, the Bank made 19.6 percent of all home mortgage loans to moderate-income borrowers. This exceeds both the aggregate lending performance of 13.9 percent and the percentage of moderate-income families of 18.0 percent. The percentage of loans to moderate-income borrowers decreased in 2013 to 11.5 percent.

Geographic Distribution

Overall, the geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area. This conclusion was primarily based on the Bank's distribution of loans in LMI census tracts. Table 6 presents the Bank's home mortgage lending performance by number of loans in 2012 and 2013, as well as aggregate market data for 2012. Table 6 also includes the percentage of owner-occupied housing units for each census tract income level for comparison purposes.

Table 6 – Distribution of Home Mortgage Loans by Census Tract Income Level						
Census Tract Income Level	% of Total Owner- Occupied Housing Units	2012 Aggregate Lending Data (% of #)	2012 Bank		2013 Bank	
			#	%	#	%
Low	1.4	1.5	0	0.0	1	0.8
Moderate	12.2	11.6	8	4.8	5	4.1
Middle	33.4	28.7	17	10.1	13	10.7
Upper	53.0	58.3	143	85.1	103	84.4
Total	100.0	100.0	168	100.0	122	100.0

Source: 2010 U.S. Census Data; 2012 and YTD 2013 HMDA Data

As indicated in Table 6, a substantial majority of originations occurred in upper-income census tracts. In 2012, the Bank did not originate any loans in the low-income census tract and originated 4.8 percent in moderate-income tracts. The percentage of the Bank's lending in moderate-income tracts was below the aggregate as well as the percentage of owner-occupied housing units. In 2013, the Bank originated 0.8 percent of loans in the low-income tracts and 4.1 percent in moderate-income tracts, which again was below demographic data.

It should be noted the Bank does not have a branch located in Salem, which is the location of the sole low-income tract in the assessment area. Additionally, the Bank experiences significant competition from other community and national banks, as well as mortgage lenders that have a physical presence in the town. In consideration of the low aggregate lending percentage, the small percentage of owner-occupied housing units, and the highly competitive environment in Salem, the Bank's performance is reasonable.

Response to CRA Complaints and Fair Lending

Marblehead Bank did not receive any CRA-related complaints during the evaluation period. It was noted that the Bank maintains adequate procedures to handle all incoming complaints, including those related to its CRA performance.

The Division of Banks provides comments regarding the institution's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-106.

Included in the Bank's Loan Policy is efforts to address the Equal Credit Opportunity Act and the Fair Housing Act. Management provides annual bank-wide fair lending training that covers all aspects of the lending process.

Based upon the review of the Bank's public comment file and its performance relative to fair lending policies and practices, no violations of the anti-discrimination laws and regulations were identified.

MINORITY APPLICATION FLOW

According to the 2010 U.S. Census Data, the Bank's assessment area contained a total population of 114,437 individuals of which 13.4 percent are minorities. The assessment area minority and ethnic population is 7.5 percent Hispanic or Latino, 2.0 percent Asian/Pacific Islander, 2.0 percent Black/African American, 1.7 percent other race, and 0.1 percent American Indian/Alaskan Native.

During 2012 and 2013 the Bank received 406 HMDA-reportable loan applications from within its assessment area. Of these applications, one was received from a minority applicant. This application resulted in an origination. For the same time period, the Bank received five applications from ethnic groups of Hispanic origin within its assessment area of which two were originated.

The Bank's level of lending was compared with the aggregate's lending performance levels for the most recent years that data was available; the data used is from 2012. The comparison of this data assists in deriving reasonable expectations for the rate of applications the Bank received from minority residential loan applicants.

The Bank received 0.4 percent of its applications from minorities while the aggregate was higher at 2.8 percent. In 2013, the Bank did not receive any applications from racial minorities. The percentage of Bank's applications from ethnic minorities at 1.2 percent was similar to the percentage received by aggregate lenders at 1.9 percent in 2012. The Bank's performance remained similar in 2013 for ethnic minorities at 1.3 percent.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks at 21 Atlantic Avenue Marblehead, MA 01945."

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agencies, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.